



State of California  
*Employment Training Panel*

*Arnold Schwarzenegger, Governor*

May 6, 2008

Lawrence Makal  
Director, RLI External Programs  
Raytheon Company  
2000 East El Segundo Boulevard, Building E-1, MS A-114  
El Segundo, CA 90245-0902

Dear Mr. Makal:

Enclosed is our final audit report relative to the Employment Training Panel Agreement No. ET03-0387 for the period June 30, 2003, through June 29, 2005.

Also enclosed is a demand letter for payment of costs disallowed in the audit report. Payment is due upon receipt of this letter. If you wish to appeal the audit findings, you must follow the procedure specified in Attachment A to the audit report.

We appreciate the courtesy and cooperation extended to our auditor during the audit. If you have any questions, please contact Charles Rufo, Audit Director, at (916) 327-5439.

Sincerely,

*Original signed by:*

Charles Rufo  
Audit Director

Enclosures

cc: Teri Lindow, Administrative Assistant

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# **RAYTHEON COMPANY**

ET03-0387

Final Audit Report

For The Period

June 30, 2003 through June 29, 2005

Report Published May 6, 2008

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# AUDITOR'S REPORT

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## Summary

We performed an audit of Raytheon Company, Agreement No. ET03-0387, for the period June 30, 2003, through June 29, 2005. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit was performed during the period September 18, 2006, through September 22, 2006, except for Finding Nos. 1 and 2, for which our report is dated May 23, 2007.

The Employment Training Panel (ETP) reimbursed the Contractor a total of \$823,190.92. Our audit supported that \$746,544.65 is allowable. The balance of \$76,646.27 is disallowed and must be returned to ETP. The disallowed costs resulted from noncompliance with Trainer-to-Trainee ratio requirements, 20 trainees who did not meet training hour requirements and 13 trainees who did not meet retrainee eligibility requirements. In addition, we noted an administrative finding for inaccurate reporting of trainee wage rates.

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## AUDITOR'S REPORT (continued)

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### Background

Raytheon Company (Raytheon) was founded in Cambridge, Massachusetts, as the American Appliance Company in 1922. Since the U.S. Department of Defense began reducing defense procurements in 1991, Raytheon has focused on converting its defense technologies into products for civilian commercial markets. Today Raytheon's core business is focusing on defense and commercial electronics, business aviation, and special mission aircraft. Now headquartered in Lexington, Massachusetts, Raytheon employs approximately 77,500 workers worldwide, with approximately 13,500 employees in California.

This is the second training Agreement with Raytheon Company. Raytheon designed this training program for its employees and Raytheon's key suppliers. Contractor's representative stated an important goal of this training was to achieve greater levels of operational integration with suppliers as Raytheon implements an enterprise-wide Integrated Supply Chain. The training project provides training in Continuous Improvement, Manufacturing Skills, and Computer Skills.

This Agreement allowed Raytheon Company to receive a maximum reimbursement of \$2,269,165 for retraining 3,860 employees. During the Agreement term, the Contractor placed 1,352 trainees and was reimbursed \$823,190.92 by ETP.

### Objectives, Scope, and Methodology

We performed our audit in accordance with *Government Auditing Standards*, promulgated by the United States General Accounting Office. We did not audit the financial statements of Raytheon Company. Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that Raytheon Company complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.

Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Trainees received the minimum training hours specified in the Agreement.
- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.

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## AUDITOR'S REPORT (continued)

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- Trainees were employed continuously full-time with the Contractor for 90 consecutive days after completing training, and the 90-day retention period was completed within the Agreement term.
- The Contractor's cash receipts agree with ETP cash disbursement records.

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

Conclusion	As summarized in Schedule 1, the Summary of Audit Results, and discussed more fully in the Findings and Recommendations Section of our report, our audit supported \$746,544.65 of the \$823,190.92 paid to the Contractor under this Agreement was allowable. The balance of \$76,646.27 was not earned according to the terms of the Agreement and must be returned to ETP.
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Views of Responsible Officials	The audit findings were discussed with Lawrence Makal, Director of RLI External Programs, and John Twomey, President of Integrated Solutions, at an exit conference held on September 22, 2006.
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Based on the additional documentation submitted by the Contractor on May 23, 2007, we concluded to allow training support costs of 8 percent for Job No. 5. However, for Finding Nos. 1 and 2 we continue to disallow costs for noncompliance with trainer-to-trainee ratio requirements and training hour requirements not met, respectively. The Contractor's response and additional auditor comments are summarized in the Findings and Recommendations Section of our report. On June 7, 2007, Mr. Twomey, on behalf of the Contractor agreed to bypass the draft audit report and proceed directly to the final audit report.

The issuance of your final audit report has been delayed by the audit unit. Therefore, ETP will waive the accrual of interest resulting from this audit for the disallowed costs beginning July 12, 2007, through the issue date of this Final Audit report.

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## AUDITOR'S REPORT (continued)

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Audit Appeal Rights      If you wish to appeal the audit findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).

Records      Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right, "...to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years from the date of the last payment from ETP to the Contractor, or the date of resolution of appeals, audits, claims, exceptions, or litigation, whichever is later."

Charles Rufo  
Audit Director

Fieldwork Completion Date:      September 22, 2006, except for Finding Nos. 1 and 2, for which our report is dated May 23, 2007.

*This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET03-0387 and should not be used for any other purpose.*

# SCHEDULE 1 – Summary of Audit Results

## RAYTHEON COMPANY

AGREEMENT NO. ET03-0387

FOR THE PERIOD

JUNE 30, 2003 THROUGH JUNE 29, 2005

	<u>Amount</u>	<u>Reference*</u>
Training Costs Paid By ETP	<u>\$ 823,190.92</u>	
Disallowed Costs:		
Trainer-to-Trainee Ratio Requirements Not Met	60,876.27	Finding No. 1
Training Hour Requirements Not Met	9,213	Finding No. 2
Retrainee Eligibility Not Met	6,557	Finding No. 3
Inaccurate Reporting	<u>-</u>	Finding No. 4
Total Costs Disallowed	<u>\$ 76,646.27</u>	
Training Costs Allowed	<u><u>\$ 746,544.65</u></u>	

\* See Findings and Recommendations Section.



# FINDINGS AND RECOMMENDATIONS

**FINDING NO. 1 –** Raytheon Company's (Raytheon) training documentation indicated Trainer-To-Trainee training provided exceeded the trainer-to-trainee ratio required in the Agreement. As a result, we disallowed training costs of \$60,876.27.

Exhibit A, Chart 1 of the Agreement states that the trainer-to-trainee ratio for class/lab and videoconference training shall not exceed 1:20 for retrainees. The required trainer-to-trainee ratios ensure an optimum class size for the effective delivery of instruction. Also, the ETP Monitoring report dated October 7, 2005, stated in part "At this time, any hours on rosters with a ratio of 1:24 or less may be counted toward ETP totals. However, the remainder of the rosters with ratios of 1:25 or higher exceed the limits specified in Exhibit A of the Agreement and may not be counted toward ETP class/lab training."

Raytheon's training rosters showed the trainer-to-trainee ratio exceeded the required ratios of 1:20 by no more than 20 percent for numerous classes sampled. However, the actual ratio exceeded the required ratio by more than 20 percent for all Quality Assurance class/lab sessions reviewed. The following table identifies each of the twelve Quality Assurance modules including: training dates, module number, audited trainer-to-trainee ratio, the adjusted hourly reimbursable cost per hour, audited training hours, and the disallowed training costs per class:

A	B	C	D	E	F
Training Date	Module No.	Audited Trainer-to-Trainee Ratio	Adjusted Hourly Reimbursable Cost Per Hour [(\$13.00 per hour) - (\$13.00 x 20 trainees)/Audited Trainer-Trainee Ratio]	Audited Training Hours	Disallowed Costs (actual trainees x D x E)
1/12/04	1	3:159	\$8.09	6	\$ 7,717.86
1/26/04	2	2:170	\$9.94	3	\$ 5,069.40
2/2/04	3	3:166	\$8.30	3	\$ 4,133.40
2/9/04	4	2:167	\$9.89	3	\$ 4,954.89
2/16/04	5	2:164	\$9.83	3	\$ 4,836.36
2/23/04	6	2:156	\$9.67	3	\$ 4,525.56
3/1/04	7	2:171	\$9.96	3	\$ 5,109.48
3/8/04	8	2:165	\$9.85	3	\$ 4,875.75
3/15/04	9	2:169	\$9.92	3	\$ 5,029.44
3/29/04	10	2:174	\$10.01	3	\$ 5,225.22
4/5/04	11	2:161	\$9.77	3	\$ 4,718.91
4/12/04	12	2:160	\$9.75	3	\$ 4,680.00
Total Disallowed Costs =					\$ 60,876.27

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## FINDINGS AND RECOMMENDATIONS (continued)

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As shown in the previous table, ETP reimbursed class/lab training costs based at \$13 per hour based on a class size of 20 trainees (1:20 trainer-to-trainee ratio) equaling \$260 per trainer hour. The required trainer-to-trainee ratios ensure optimum class size for the effective delivery of instruction and affect the hourly training cost. Since the actual size of the class/lab sessions substantially exceeded the required ratio, ETP adjusted the reimbursable cost per hour (to \$8.09 to \$10.01 per hour) based on the actual trainer-to-trainee ratios.

Contractors  
Response

On May 23, 2007, Contractor representative stated "At the time of the Audit... [we discussed] only the sample trainees would be adjusted if there were a ratio problem. It appears that the 'adjusted reimbursement rate' was applied to the entire roll sheet? Please clarify. If this [is] not the case we can provide additional trainer signatures for these roll sheets."

Auditor Comments

Auditor had identified 6 of the 69 sample trainees attended at least 1 or more of the twelve Quality Assurance class/lab training modules. Whenever a material variance to the standard trainer-to-trainee ratio exists, the reimbursement rate for the entire class session is recalculated. The recalculation of the hourly training cost cannot be done on a per trainee basis. Submission of a trainer signature after-the-fact fails to provide credible evidence that an additional trainer provided training. As noted, there were two to three trainer signatures for each of the class sessions in question.

Recommendation

Raytheon must return \$60,876.27 to ETP. In the future, Raytheon should ensure that at least one instructor is on site for every 20 retrainees in class/lab training. Each instructor present should sign the training roster at the time of the training session.

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## FINDINGS AND RECOMMENDATIONS (continued)

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**FINDING NO. 2 –**  
Training Hours  
Requirement Not  
Met

Raytheon's training documentation did not support the training hours reported for 20 Job No. 5 trainees. As a result, we disallowed \$9,213 in training costs claimed for these trainees.

Title 22 California Code of Regulations, Section 4442(b) requires Contractor to maintain and make available records that clearly document all aspects of training. All classroom/laboratory training records must include hours of attendance and dates of training, be certified daily by the instructor during training, signed (or initialed) daily by the trainee, and signed by the trainer for each type of training.

In addition, Paragraph 2(b) of the Agreement states, "Reimbursement for class/lab and videoconference training for trainees in job numbers 1 and 5 will be based on the total actual number of training hours completed by training delivery method for each trainee, up to the maximum specified in Chart 1, providing the minimum and not more than the maximum hours are met." The minimum and maximum training hours were 24 to 200 for Job No. 5.

Raytheon's classroom training rosters did not support reported training hours for 7 of the 66 (Trainee Nos. 8, 11, 14, 17, 22, 30, and 34) Job No. 5 sample trainees. The material deficiencies were due to one or more of the following missing items: 1) trainee initial, 2) trainee signature, and 3) trainer signature. These training roster deficiencies were found in the following topics: 1) Computing Applications and Skills (CS 016 & 022), and 2) Mechanical Engineering & Design (ME 001). In numerous instances, training rosters reviewed for the sample trainees included non-sample trainees who were also missing the above information. Thus, we judgmentally reviewed an additional 13 trainees who had material deficiencies and are also included in this finding.

The Contractor's training records for trainees shown in the table on the next page did not support the reported classroom hours. Thus, we disallowed the reimbursement for 9 trainees who did not have a minimum of 24 allowable training hours. Since the remaining 11 trainees had at least 24 allowable training hours, we reduced the training costs reimbursed for only those training hours found to be deficient.

## FINDINGS AND RECOMMENDATIONS (continued)

Trainee No.	Training Hours Reported	Training Hours Disallowed	Allowable Training Hours	Code
5	48	24	24	B
7	113	25	88	B
10	47	30	17	A
12	79.5	32	47.5	B
13	51	32	19	A
14	42	32	10	A
16	66	38	28	B
18	72	32	40	B
20	72	32	40	B
21	69.5	24	45.5	B
22	50.5	32	18.5	A
23	32	32	0	A
24	32	24	8	A
27	108	24	84	B
28	56	24	32	B
29	35	16	19	A
30	70	32	38	B
31	26	24	2	A
32	31	24	7	A
33	79	32	47	B

**LEGEND:**  
A = Since trainee did not have a minimum of 24 allowable training hours, the training costs paid for this trainee were disallowed (9 trainees).  
B = Trainee had a minimum of 24 allowable training hours, thus training costs were reduced by training hours disallowed (11 trainees).

### Contractor's Response

On May 23, 2007, Contractor submitted roll sheets for Computing Applications and Skills (CS 022) and Mechanical Engineering and Design (ME 001 & 002) and learning management system transcripts for consideration of this audit finding. No further explanation was provided.

### Auditor's Comments

Although ETP Auditor had already made photocopies of these training rosters and transcripts during audit fieldwork, ETP performed a second review of training rosters. The second review, based on Contractor's secondary documentation (learning management system transcripts) concluded that 26 of the 46 trainees were allowable. Thus, the 20 trainees remaining in this audit finding did not support that training hour requirements were met.

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## **FINDINGS AND RECOMMENDATIONS (continued)**

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Recommendation     Raytheon Company must return \$9,213 to ETP. In the future, the Contractor should ensure that training records maintained comply with Title 22 CCR Section 4442. The Contractor should also ensure that trainees attend the training hours required by the Agreement prior to claiming reimbursement from ETP. Additionally, Contractor must first receive approval by ETP for any modified record keeping practices, such as use of a learning management system to document ETP-funded training.

## FINDINGS AND RECOMMENDATIONS (continued)

**FINDING NO. 3 –** Raytheon's employment information shows 13 trainees were Retrainee ineligible to receive training. The trainees did not meet employment Eligibility Not Met requirements prior to the start date of training. As a result, we disallowed \$6,557 in training costs. Since Trainee No. 14 was previously disallowed, no additional training costs are disallowed regarding this trainee.

Unemployment Insurance Code, Section 10201(c) and Exhibit A, Paragraph III of the Agreement requires a retrainee to be employed full-time by the Contractor for a minimum of 90 days as of the trainee's start date of training. A retrainee may also be employed for less than 90 days with their employer, if they were employed for at least an average of 20 hours per week for at least 90 days by an ETP eligible employer(s) during the 180 day period preceding their hire date.

The 15 trainees were not employed by Raytheon for a minimum of 90 days prior to each trainee's start of training. Also, according to Employment Development Department (EDD) base wage information, sufficient prior employment was not shown for these trainees. Raytheon stated Trainee No. 6 was a contracted employee, and thus did not appear on Raytheon's official personnel report, which included date of hire. The table below shows the trainee's hire date per Raytheon's personnel records, and first day of training reported on the ETP Training Attendance Roster.

Trainee No.	Job No.	Trainee Hire Date	First Day of Training
1	5	February 2, 2004	February 10, 2004
2	5	June 28, 2004	June 29, 2004
3	5	June 28, 2004	June 29, 2004
4	5	May 10, 2004	June 14, 2004
6	5	N/A	March 15, 2004
8	5	July 26, 2004	August 16, 2004
9	5	March 15, 2004	May 10, 2004
11	5	January 19, 2004	March 1, 2004
14	5	June 14, 2003	July 21, 2003
16	5	August 25, 2003	October 22, 2003
18	5	July 14, 2004	July 15, 2004
24	5	June 21, 2004	June 22, 2004
25	5	May 24, 2004	June 30, 2004

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## **FINDINGS AND RECOMMENDATIONS (continued)**

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Recommendation     Raytheon Company must return \$6,557 to ETP. In the future, the Contractor should ensure all retrainees meet eligibility requirements before the start of training.

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## FINDINGS AND RECOMMENDATIONS (continued)

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**FINDING NO. 4 –** Trainee hourly wage rates reported by Raytheon on invoices submitted to ETP were inaccurate. As a result, the Contractor did not comply with Agreement reporting requirements.

Inaccurate  
Reporting

Paragraph 2(d) of the Agreement states, “Contractor shall submit invoices and necessary statistical data to ETP in a form and manner prescribed by ETP.” Actual, complete trainee wage rate information is required to verify compliance with Exhibit A, Paragraph VII-A of the Agreement. This section states, “Each trainee must be employed full time... for a period of at least ninety (90) consecutive days immediately following the completion of training... Wages at the end of the 90-day retention period shall be equal to or greater than the wages listed in [the Agreement].”

Raytheon's payroll records show that trainee hourly wage rates reported were incorrect for 17 out of the 69 trainees randomly tested. Actual hourly wage rates differed from reported wage rates by more than 5 percent for these trainees.

**Recommendation** In the future, Raytheon Company should ensure all trainees' data submitted to ETP is accurate and complete. Inaccurate or incomplete data may result in repayment of unearned funds, plus applicable interest, to ETP.



# ATTACHMENT A – Appeal Process

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## 4450. Appeal Process.

- (a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.
- (b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.
  - (1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.
  - (2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.
    - (A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:
      - (1) Refuse to hear the matter, giving the appellant written reasons for the denial; or
      - (2) Conduct a hearing on a regularly-scheduled meeting date; or
      - (3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.
    - (B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.
    - (C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.
- (c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.
- (d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.

Reference: Sections 10205(k), 10207, Unemployment Insurance Code.

Effective: April 15, 1995

**Amended: December 30, 2006**